

COMMONWEALTH OF KENTUCKY  
BEFORE THE ENERGY REGULATORY COMMISSION

\* \* \* \* \*

In the Matter of:

|                           |   |               |
|---------------------------|---|---------------|
| NOTICE TO ADJUST RATES BY | ) |               |
| LYDA GAS COMPANY, INC.    | ) | CASE NO. 7942 |

O R D E R

On August 20, 1980, Lyda Gas Company, Inc. (Applicant), a gas distribution utility serving 33 residential and commercial customers in Elkhorn City, Kentucky, filed an Application with the Commission requesting an increase in its rates charged for gas service to be effective on and after September 15, 1980. The proposed rates would produce additional annual revenue of \$4,770, which the Applicant stated was necessary to improve its financial position and help meet the demands for improved operations and safety requirements.

To determine the reasonableness of the requested rates, the Commission, in Orders dated August 21 and September 9, 1980, suspended the proposed rates for a period of five (5) months on and after the effective date and set a public hearing to be held October 8, 1980. The hearing was held as scheduled with the Attorney General's Division of Consumer Intervention, the only party intervening in the matter, being present. At the conclusion of the hearing, the matter was submitted to the Commission for final determination.

The Commission after consideration of all the evidence of record and being advised is of the opinion and FINDS:

- (1) That for purposes of testing the reasonableness of the proposed rates, the twelve month period ending June 30, 1980 has been adopted as the test period in this matter. Pro forma adjustments, where found fair, just and reasonable, have been included to more clearly reflect current operating conditions.

- (2) That the Applicant's Net Investment in property devoted to public service as of June 30, 1980, is:

|                                |                    |
|--------------------------------|--------------------|
| Gas Plant in Service           | \$17,271           |
| Cash Working Capital           | 804 <sup>(1)</sup> |
| Subtotal                       | <u>\$18,075</u>    |
| Less: Accumulated Depreciation | \$13,894           |
| Net Investment                 | <u>\$ 4,181</u>    |

- (3) That Applicant's Capitalization at the end of the test period is:

|               |                |
|---------------|----------------|
| Notes Payable | \$2,000        |
| Common Equity | <u>2,669</u>   |
|               | <u>\$4,669</u> |

- (4) That the estimated time factor used to determine the legal and engineering consultants' rate case fees was overstated and should be reduced to a total of thirty two (32) hours<sup>(2)</sup> making total rate case expenses \$1,650.
- (5) That a three year amortization period for rate case expenses is fair and equitable to the customers of the Company and more clearly reflects the rate case history of Lyda Gas.
- (6) That the proposed depreciation rate of 10% on meters is excessive and does not reflect an accurate estimate of the useful life of a gas meter.
- (7) That a more reasonable depreciation rate for gas meters is approximately 3-1/3% or a useful life of thirty (30) years, which reduces Applicant's adjustment by \$136 from \$206 to \$70.
- (8) That the purchased gas cost adjustment, by contract, is based on the increase granted in this case, being 10% of the total grant herein or \$428.
- (9) That Applicant's actual Net Operating Loss at June 30, 1980 was \$947 and on a pro forma basis, following the Commission's adjustments to Applicant's pro forma statement outlined above, the operating deficit was \$3,613.

(1) 1/8 of Operation and Maintenance Expenses less Purchased Gas.  
(2) Cross examination at hearing of October 8, 1980.

- (10) That a fair, just and reasonable return on Applicant's investment in its utility operations is 13.5% in that it will allow Lyda Gas to pay its operating expenses, service its debt and provide a reasonable surplus.
- (11) That based on the return found fair, test period operations result in a net operating income deficiency of \$4,177.<sup>(3)</sup>
- (12) That this deficiency adjusted for taxes would cause an additional revenue requirement of approximately \$4,280, and is the amount of additional revenue granted herein.
- (13) That the rates and charges set out in Appendix "A" attached hereto and made a part hereof will produce gross annual revenues in the amount of \$9,665 and are the fair, just and reasonable rates for the Applicant to charge for gas service in that they will produce revenues sufficient to permit it to pay its operating expenses, service its debt, and provide a reasonable surplus for equity growth.
- (14) That the rates proposed by the Applicant in this case are unfair, unjust, and unreasonable in that they produce gross annual revenues in excess of \$9,665 and should be denied.

IT IS THEREFORE ORDERED, that the rates sought by Lyda Gas Company, Inc. be and the same are hereby denied.

IT IS FURTHER ORDERED, that the rates set out in attached Appendix "A" are hereby approved for gas service rendered by Lyda Gas Company, Inc. on and after the date of this Order.

IT IS FURTHER ORDERED, that the Applicant shall file with this Commission within thirty (30) days from the date of

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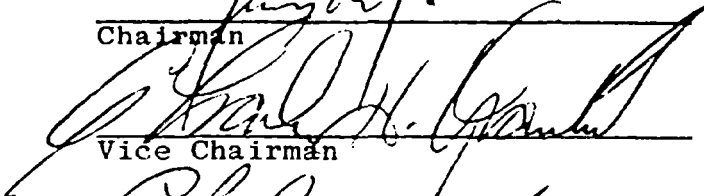
(3)  $\$4,181 \times 13.5\% = \$564 + \$3,613 = \$4,177.$

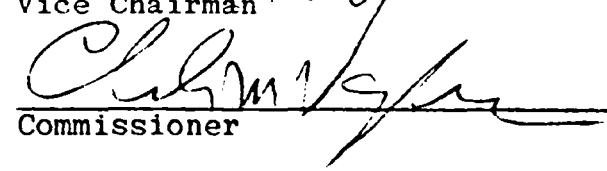
this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this the 20th day of October, 1980.

ENERGY REGULATORY COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY  
COMMISSION IN CASE NO. 7942 DATED October 20, 1980

The following rates and charges are prescribed for the customers in the area served by Lyda Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the date of this Order.

Gas Service

Rate:

|                          |                |
|--------------------------|----------------|
| All over 2 mcf per month | \$3.63 per mcf |
|--------------------------|----------------|

Minimum Bill:

|                     |                  |
|---------------------|------------------|
| First 2 mcf or less | \$5.00 per month |
|---------------------|------------------|